

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Northeastern Rural Health Clinics (“NRHC”) Amount Requested: \$142,200 1306 Riverside Drive Requested Loan Term: 10 years Susanville, California Date Requested: February 28, 2002 Lassen County Resolution Number: HII-115																									
Project Site: 209 Third Street, Westwood, California Facility Type: Community Clinic																									
Use of Loan Proceeds: Loan proceeds will be used in conjunction with Cedillo-Alarcón grant funds to construct a new facility.																									
Type of Issue: HELP II Loan Prior HELP II Borrower: Yes Payments up-to-date: Loan paid in full December 2001																									
Financial Overview: NRHC is a financially stable organization in a rural area with strong demand for its services. While the interim period on the income statement reflects a deficit, NRHC’s balance sheet is solid with net assets of over \$1 million. The proforma debt service coverage ratio remains strong with this proposed financing.																									
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Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.																									
Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan for Northeastern Rural Health Clinics in an amount not to exceed \$142,200 for a term of 10 years subject to the standard HELP II loan provisions.																									

STAFF SUMMARY AND RECOMMENDATION

Northeastern Rural Health Clinics

February 28, 2002
Resolution Number: HII-115

I. PURPOSE OF FINANCING: Loan proceeds will be used in conjunction with the \$250,000 Cedillo-Alarcón grant to finance the construction of a new facility for the Westwood Family Practice clinic. NRHC has operated its Westwood clinic in the same rented building for twenty years. The current facility is a modular building attached to a permanent structure and is approximately seventy years old. These two conjoined buildings are inefficient and cannot accommodate the clinic’s growth.

Construction.....**\$463,445**

The current facility is less than 2,000 square feet with five exam rooms. The proposed HELP II loan will enable NRHC to complete the construction of a new 3,200 square foot clinic with seven exam rooms, provider offices, a parking lot, and room for future expansion for medical and dental services on the premises. NRHC seeks to add dental services by 2003.

The new building will be built on property that has already been purchased with internal funds. Preliminary costs, design, and permit fees will be paid with a \$50,000 grant from the Office of Statewide Health Planning and Development. Internal funds and the HELP II loan will pay for the balance of this project.

Approximately 27% of the total cost of the project will be funded with the proposed HELP II loan. The loan-to-value ratio is expected to be less than 95% of the “as improved” appraised value. The anticipated completion date of the project is November 30, 2002 with the intent to occupy the building and open for business at the same time.

Permits/fees**6,500**

Fees include building permits and utility hook-ups for water and sewer.

Financing Costs**2,755**

Authority Closing Fee..... 1,755
Estimated Closing Costs 1,000

Total.....**\$472,667**

Financing structure:

- 10-year loan term, fully amortized.
- 120 equal monthly payments of approximately \$1,373 (total annual payments of approximately \$16,477).
- Total interest payments of approximately \$22,571.
- 1st lien on property located at 209 Third Street.
- Must not exceed 95% loan to value ratio.
- Corporate gross revenue pledge.
- Verification of receipt of all permits necessary to begin construction.
- Verification of Guaranteed Maximum Price Construction Contract is in place.

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NORTHEASTERN RURAL HEALTH CLINICS, INC.

Statement of Financial Position

	<u>As of November 30,</u>	<u>As of June 30,</u>		
	<u>2001</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Assets	(Unaudited)			
Cash and Cash Equivalents	\$ 416,120	\$ 472,159	\$ 358,175	\$ 423,404
Accounts Receivable	542,986	675,918	648,378	674,214
Inventory	124,123	102,421	71,337	94,612
Prepaid expenses and other current assets	171,198	52,286	48,403	73,397
Property and equipment, net	818,702	850,818	962,257	772,071
Total Assets	\$ 2,073,129	\$ 2,153,602	\$ 2,088,550	\$ 2,037,698
Liabilities and Net Assets				
Accounts payable	70,475	79,713	88,478	77,391
Short term notes payable	5,421	20,758	22,466	43,111
Accrued payroll and related expenses	146,061	136,863	142,367	139,999
Accrued leave	133,486	144,646	120,081	125,188
Accrued interest	1,403	1,403	2,313	1,164
Other accrued liabilities	30,876	18,851	8,578	1,816
Capitalized leases payable	2,691	6,267	16,778	-
Deferred Revenue	135,982	93,404	111,422	125,414
Current portion of long term debt	109,013	80,483	133,005	153,999
Long-Term Debt (net of current portion)	100,217	177,300	248,283	227,415
Total Liabilities	735,625	759,688	893,771	895,497
Net Assets:				
Unrestricted Net Assets	1,301,273	1,359,799	1,183,502	1,140,085
Temporarily restricted	36,231	34,115	11,277	2,116
	<u>1,337,504</u>	<u>1,393,914</u>	<u>1,194,779</u>	<u>1,142,201</u>
Total Liabilities and Net Assets	\$ 2,073,129	\$ 2,153,602	\$ 2,088,550	\$ 2,037,698

Financial Ratios:

	<u>Proforma (a)</u>			
	<u>FYE June 2001</u>			
Debt Service Coverage (x)	1.96	1.73	1.00	1.72
Debt/Unrestricted Net Assets (x)	0.28	0.19	0.34	0.33
Margin (%)		3%	1%	3%
Current Ratio (x)		2.24	1.74	1.89

(a) Recalculates June 2001 audited results to include the impact of this proposed financing. The 1996 CHFFA HELP II loan was paid off December 31, 2001 and is also reflected in the proforma DSC.

Financial Discussion:

NRHC is a financially stable organization in a rural area with strong demand for its services.

NRHC has successfully built up its balance sheet over the three years reviewed. Although net income declined between 1999 and 2000, it remained positive and increased 306% in 2001 to \$176,297. Revenues have outpaced expenses, growing 11% from 2000 to 2001 versus an 8% growth in expenses for the same period. Net assets have grown steadily, up 22% over the last three years. Demand for services increased over 6% as evidenced by the higher number of patient encounters from 1999 to 2001, resulting in a 10% increase in net patient fees revenue. Overall, management forecasts continued growth, projecting a 12% increase in total revenues by June 2005.

While the interim period on the income statement reflects a deficit, NRHC's balance sheet is solid with net assets of over \$1 million.

Historically, the organization experiences losses for the first six months of the year since patient clinic visits decline in the latter summer months and fewer visits are scheduled due to provider vacations. The holidays in November and December also tend to contribute to declines in patient visits. The second half of the year typically rebounds, as evidenced again this year by over 800 more visits in January 2002 as compared to December 2001.

In addition, NRHC experienced an unusually large deficit this year, which can be attributed to several factors:

- One of its clinics has been operating at a deficit, accounting for over half of the corporation's overall loss. In late December 2001, a second provider was added to remedy the situation. While expenses will also increase, anticipated revenue increases due to the increased capacity is expected to bring this clinic to breakeven operations.
- Effective July 1, 2001, a new Medi-Cal Prospective Payment System (PPS) was implemented. NRHC is still receiving the 1999-2000 reimbursement rate rather than the new PPS rate resulting in a shortfall of nearly \$30,000 through December 2001.
- Three new providers were added causing a decline in productivity. Once they are fully trained, NRHC expects to see a boost in revenues.
- In October 2001, the Chief Financial Officer resigned. NRHC contracted to provide interim services for the vacant position, which has recently been filled, eliminating a costly one-time consulting fee expense.

Despite these circumstances, NRHC's cash flow has remained positive, accounts payable are current at 30 days, and accounts receivable have improved, producing a stronger financial position compared to the same period last year. NRHC's management is implementing several measures to improve its overall financial health, including providing a workshop in mid-March for all clinical and support staff to train on maximizing reimbursement through appropriate charging and coding of patient visits. In addition, a Pharmacy and Therapeutics Committee has been developing a medical supply formulary to reduce supply costs. NRHC also modestly increased the clinic fee schedule by 5% on January 1, 2002.

NRHC maintains good liquidity averaging over \$400,000 in cash over a three-year review period. The current ratio remains consistent and is strongest in fiscal 2001 at 2.24x. Accumulated net assets are nearly \$1.4 million, with the majority being unrestricted, providing significant operational flexibility for the organization.

Proforma debt service coverage remains strong with this proposed financing.

In December 2001, NRHC's existing HELP II loan was paid off, reducing their long-term debt obligations by \$32,062. Once the new facility is built, NRHC will save another \$13,800 annually with the elimination of the monthly rent expense for the current site. Consequently, the proforma debt service coverage ratio becomes stronger at 1.96x as compared to 1.73x in fiscal 2001. Moreover, the debt-to-unrestricted net assets ratio remains low, as indicated by the proforma ratio of .28x. NRHC has a solid history of debt repayment with the Authority as demonstrated by its recently retired HELP II loan and should be able to manage the new debt obligation.

III. UTILIZATION STATISTICS:

<u>Type of Service</u>	Fiscal Year Ending June 30,					
	<u>2001</u>		<u>2000</u>		<u>1999</u>	
	Encounters	# of Patients	Encounters	# of Patients	Encounters	# of Patients
Private Insurance	23,781	5,768	21,219	5,678	22,155	5,569
Private Pay	3,558	1,309	2,796	923	2,854	1,247
Medicare	8,012	1,257	6,696	1,157	5,259	1,202
Medi-Cal	14,207	2,817	14,639	2,931	16,302	3,173
CHDP	832	276	941	303	900	314
CPSP	448	32	586	31	642	40
CMSP	1,262	236	1,243	197	1,187	167
Healthy Families	595	104	455	59	195	6
BCEDP	60	14	24	7	9	1
EAPC	738	553	1,320	528	1,353	625
Family PACT	<u>2,481</u>	<u>864</u>	<u>2,215</u>	<u>749</u>	<u>1,797</u>	<u>653</u>
Total Visits	55,974	13,230	52,134	12,563	52,653	12,997

IV. ORGANIZATION:

Background: NRHC was incorporated on November 15, 1977 with the primary purpose of providing health services, medical services, health care programs, preventive care programs, and screening programs to the residents of northeastern California and the surrounding areas on a non-profit basis.

NRHC is comprised of clinic “teams” with the following net revenue percentage of the total organization as of June 30, 2001:

<u>Organization Clinics</u>	<u>Percent</u>
Lassen Family Dental Practice, Susanville	8%
Doyle Family Practice, Doyle	7%
Great Basin Primary Care – Dr. Dozier, Susanville	8%
Lassen Family Practice, Susanville	27%
Lassen Family Urgent Care, Susanville	11%
Westwood Family Practice, Westwood	14%
Lassen Women’s Health Center, Susanville	16%
Women, Infants, Children Program, Susanville	4%
Northeastern Occupational Medicine, Susanville	<u>5%</u>
	100%

Licenses: NRHC is licensed as a rural health community clinic with the Department of Health Services.

Competition: NRHC’s Westwood Family Practice clinic is the sole primary care provider in Westwood and serves 80% of the local population. Seneca District Hospital is located 14 miles west. There are other NRHC clinics in Susanville located 21 miles to the east.

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/01</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
Note payable to NCB Development Corp.	\$84,249	\$61,023	\$61,023
CHFFA HELP II Loan, 1996 Note payable to Rural Community Assistance Corp.	300,000	32,062 *	0
	189,200	164,698	164,698
Proposed:			
CHFFA HELP II Loan, 2002		N/A	142,200
TOTAL DEBT		<u>\$257,783</u>	<u>\$367,921</u>

* Paid in full - 12/31/2001.

VI. SECTION 15438.5 OF THE ACT:

The savings resulting from this proposed financing when compared to a conventional loan at 6.75% totals approximately \$31,165. This savings will be passed through to NRHC clients by improving patient care through updated equipment and medical supplies in a larger, modern, efficient clinic facility, allowing for expansion of services including the addition of dental care.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan for Northeastern Rural Health Clinics in an amount not to exceed \$142,200 for a term of 10 years subject to the standard HELP II loan provisions.